

What the General Intellectual Property Practitioner Should Know about Patenting Business Methods

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I. Introduction

In the last couple of years, companies have been filing a phenomenal volume of patent applications with the U.S. Patent & Trademark Office (PTO), and the PTO has been issuing a patents in record numbers. During fiscal 1998, the PTO processed an estimated 203,000 patent applications, and issued a record 154,579 new patents.¹ This recent rise in patent applications can be attributed in part to three factors: the Federal Circuit's July 1998 decision in *State Street Bank & Trust Co. v. Signature Financial Group Inc.*,² the rise of the Internet; and greater patent savviness among companies.

The *State Street* case afforded the Federal Circuit the occasion, in declaring the patentability of Signature Financial Group's "hub and spoke" method and system for managing mutual funds, to narrow the scope of the prohibition on patenting "mathematical algorithms" and to lay permanently to rest the already moribund prohibition on patenting "methods of doing business." Although many patents had issued covering methods of doing business before the *State Street* decision, that decision greatly increased the awareness of the possibility of patenting methods of doing business or "business models." This new awareness, coupled with the meteoric rise of the Internet in the last few years and the new business models that it has engendered, has led to a rising tsunami of patent applications seeking to cover new business paradigms and methods. Because most modern business models are implemented and managed through software systems, there has been a corresponding rise in the filing of so-called "software patents." Indeed, the patent at issue in *State Street* was a software-based method and system for managing mutual funds.

In the months since the *State Street* decision was handed down on July 23, 1998, the effect of that decision on the numbers and types of patent applications filed has been both swift and palpable. The Acting Commissioner of the PTO, Q. Todd Dickinson, stated recently that in the past year the number of applications with claims similar to those at issue in *State Street* increased over 40 percent. He also reported that during fiscal year 1998, the PTO expected to issue over 300 "business method" type software patents.³ Indeed, the number of issued software patents in general has skyrocketed. Software patents are examined in the PTO's data processing and computers and communications group. That group had the largest increase in issued patents last year, up 40% to 22,930 issued patents. "Internet"

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1 Brenda Sandburg, "Speed Over Substance?", *The Recorder* (Feb. 2, 1999) 1, 1.

2 149 F.3d 1368 (Fed. Cir. 1998), cert. denied, 119 S. Ct. 891 (1999).

3 Sandburg, *supra* note 1, at 14.